

SUBCOMMITTEE NO. 3

Agenda

**Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro**



**Thursday, April 27, 2006
10:00 a.m. or Upon Adjournment of Session
Room 4203**

Consultant: Dave O'Toole

“A” AGENDA

Item Number and Title

Page

Discussion Items

8955 Department of Veterans Affairs2

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VOTE-ONLY BUDGET ITEMS

8950 Department of Veterans Affairs

The Department of Veterans Affairs has three primary objectives: (1) provide comprehensive assistance to veterans and dependents of veterans in obtaining benefits and rights to which they may be entitled under state and federal laws; (2) afford California veterans the opportunity to become homeowners through loans available to them under the Cal-Vet farm and home loan program; and (3) provide support for California veterans' homes where eligible veterans may live in a retirement community and where nursing care and hospitalization are provided.

The department operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services. With \$50 million in general obligation bonds available through Proposition 16 (2000), \$162 million in lease-revenue bonds (most recently amended by AB 1077 [Chapter 824, Statutes of 2004]), and federal funds, new homes will be constructed in West Los Angeles, Lancaster, Saticoy, Fresno, and Redding.

The Governor's budget funds 1,608.6 positions (including 139.1 new positions) and budget expenditures of \$314.7 million for the department, including the veterans' homes.

For the three veterans' homes, the Governor proposes an eight percent funding increase, as shown below.

Home	Funding 2005-06*	Proposed Funding 2006-07*
Yountville	\$72,536	\$78,797
Barstow	11,890	12,387
Chula Vista	23,988	25,895
TOTALS	\$108,414	\$117,079

(*dollars in thousands)

VOTE-ONLY ITEMS

A. COBCP: Yountville Veterans Home Infrastructure Study

The Department of Veterans Affairs requests \$500,000 to conduct a comprehensive engineering and infrastructure study at the Yountville Veterans Home. This study is expected to determine where capital outlay funds are needed at the 105 year-old campus. The department reports that no comprehensive study of veterans home capital outlay needs has been conducted for the past 25 years.

B. BCP: Supplemental Medical Insurance – Part B

The Department of Veterans Affairs requests \$116,000 General Fund to pay for increased Supplemental Medical Insurance Part B costs. This appropriation would cover the increased cost increment set by the federal government annually when setting benefit levels. The majority of Veterans Home residents are recipients of this federal benefit.

C. BCP: Increase for Outside Medical Expense at Veterans Homes

The Department of Veterans Affairs requests a baseline increase of \$66,000 to fund Medicare Part A and Part B deductibles and co-pays at all three homes. This appropriation would cover the increased cost increment set by the federal government annually when setting benefit levels. The majority of Veterans Home residents are recipients of this federal benefit.

D. BCP: Veterans' Home Barstow- Workers' Compensation Adjustment

The Department of Veterans Affairs requests increased expenditure authority of \$975,000 General Fund to meet anticipated Workers' Compensation costs in the budget year. Workers' compensation costs have increased greatly in the last few years, in part due to an unaddressed backlog of overdue claims.

E. BCP: Barstow Veterans' Home – Increased Personal Services Costs.

The Department of Veterans Affairs requests \$129,000 General Fund for increased costs associated with food and security services. The Department asserts that these additional costs were caused by the enactment of Government Code Section 19134, which established mandatory minimum benefits for employees in those classifications.

F. BCP: Veteran's Home Chula Vista – Contracted Services

The Department of Veterans Affairs requests \$419,000 General Fund to address increased costs for janitorial, food service, and security services. The Department asserts that these additional costs were caused by the enactment of Government Code Section 19134, which established mandatory minimum benefits for employees in those classifications.

G. Finance Letter: Federal Per Diem COLA Adjustments for Veterans' Homes

The Department of Veterans Affairs requests \$1.045 million in Federal Trust Fund expenditure authority in order to recognize USDVA per diem COLA adjustments. The USDVA has appropriated an additional \$689,000 at Yountville, \$92,000 at Barstow, and \$264,000 at Chula Vista Veterans' Home. Approval of this request will generate General Fund savings of an equal amount.

H. BCP: Veteran's Home Fund Construction Team

The Department of Veterans Affairs requests the extension of two positions for three additional years, at a cost of \$211,000 (Veterans' Home Fund). These positions were established for the purpose of supporting the Veterans Home Development Program through grants management, design development, construction management, and community relations.

I. BCP: Standards Compliance Coordinator

The Department of Veterans Affairs requests \$129,000 General Fund to establish a standards compliance coordinator position which will oversee licensing and certifications, assure compliance with other regulatory standards, and integrate these activities with a quality assurance program.

J. BCP: Northern California Veterans Cemetery Operations

The Department of Veterans Affairs requests \$20,000 General Fund to augment funding for landscaping and grounds maintenance of the Northern California Cemetery. In accordance with United States Department of Veterans' Affairs guidelines, the state must maintain and operate the cemetery.

VOTE on Vote-Only Issues A through J:

DISCUSSION ITEMS

1. Finance Letter: Position Funding Realignment from Farm and Home Program

The Department of Veterans Affairs requests a permanent General Fund augmentation of \$2.117 million to realign funding for positions that had been funded out of the Farm and Home Program. The Bureau of State Audits has expressed support for this realignment.

Staff Comment: The BSA Audit from May 2000 noted that, "a rapid decline in the population of eligible California veterans and limited funding threaten the long-term viability of the California Veterans Farm and Home Purchase Program." Since that time, program activity has dropped further, while the DVA has not evidently reduced staff to reflect decreased workload. This request represents \$2.117 in position expense for positions redirected to other purposes more appropriately funded by General Fund.

The department reports that the Farm and Home Loan Program has reduced positions (including 55 in 2003) pursuant to the decline in workload, as well as redirected positions to address the steep workload increase caused by the opening of the Barstow Veterans Home in 1995 and Chula Vista in 2000. Rather than charge the General Fund for that additional workload, the department has used Farm and Home Loan Program funds.

Staff Recommendation: HOLD OPEN the Finance Letter and request the DVA report on:

1. The dollar value and number of positions that have been redirected from the Farm and Home Program since 1999 to work on General-funded programs.
2. The dollar value and number of positions reduced from the Farm and Home Loan Program—pursuant to identifiable workload reductions—since 1999.

2. Finance Letter: Veterans Home Information System Maintenance and Support

The Department of Veterans Affairs requests \$336,000 General Fund for ongoing maintenance and support of the Veterans Home Information System (VHIS). The department has encountered contractual problems with the existing vendor, MediTech, that they seek to remedy by contracting with a prime vendor, Centennial. Centennial will

then subcontract with MediTech. The \$330,000 will fund the 20 percent increase with Centennial.

Staff Comment: This additional funding is necessary because the existing vendor, MediTech, does not want to sign a new contract with the state of California due to its Information Technology General Provisions. Specifically, MediTech does not want to be held liable for twice the amount of the system purchase price for damages to the state committed by their equipment. To maintain and operate the VHIS, the state must contract with a prime vendor for \$336,000, and will receive no additional services.

Staff Recommendation: APPROVE the Finance Letter and request the department report on what steps the department will take to avoid contracting with vendors who won't comply with the state's IT General Provisions.

VOTE:

3. COBCP: Yountville Recreation Building Renovation

The Department of Veterans Affairs requests \$8.3 million to renovate the recreation building at the Yountville Veterans Home. Renovations will improve the functionality of the gym, museum, bar, bowling alley, and other aspects of the facility, as well as resolve handicap accessibility issues and update fire/life/safety protections. This project is expected to receive approximately \$12 million in federal funds.

Staff Comment: In a prehearing meeting it was learned that a fire had recently occurred at the recreation facility, after the BCP was submitted. The fire caused considerable damage and significantly amplified the priority for making the proposed renovations.

Staff Recommendation: APPROVE the COBCP and request the department explain how the fire will change the prioritization of this project, relative to other veterans home projects in the state.

VOTE:

4. BCP: Veterans Benefits Outreach

The Department of Veterans Affairs requests \$250,000 General Fund and one position to establish outreach programs to ensure veterans are aware of their benefits. According to the USDVA, California veterans receive less compensation and pension benefits than the national average.

Staff Comment: Staff notes that the county veterans service officers and the nongovernmental (volunteer) veterans service officers assert that they could carry out some of the same outreach activity described in the request at a lower cost.

One statutory obstacle to allowing volunteer veterans service organizations to conduct outreach is Military and Veterans Code Section 699.1. That section requires full funding of county veteran service organizations before volunteer veterans service organizations may be funded for any purpose. Specifically, the county veteran service officers would

have to receive an appropriation of \$5 million in order for the statutory authority to fund volunteers to occur.

Staff also notes that a portion of this activity is already occurring with existing resources. Specifically, the department has been redirecting \$15,000 to reach new veterans with, "Thank You for Your Service" letters. The BCP includes \$30,000 for this purpose.

Staff Recommendation: HOLD OPEN and request the DVA report on the particular benefits and efficiencies they would bring to outreach efforts relative to county veterans service officers and volunteer veterans service organizations efforts.

5. BCP: Salary Savings Adjustment for Barstow, Chula Vista, and Yountville Veterans Homes

The Department of Veterans Affairs requests \$1.7 million General Fund to reduce salary savings by an amount equivalent to 27.8 nursing positions. This adjustment would recognize the significant overtime work of 24-hour care staff at the Veterans Homes and under funding of personal services budgets.

The Administration asserts that such exemptions would be consistent with existing practice for other 24-hour care state facilities. This proposal would not result in actual nurses being hired, but rather a reduction to the current salary savings rate used for the veterans homes. This BCP seeks a lower rate in order to recognize overtime commitments that reduce available funding.

LAO Comment: (From the *Analysis of the 2006-07 Budget*):

Background. Salary savings is the amount of reduced expenditures by a department when a position is vacant or filled at a lower salary level than the budgeted level. For example, if the salary for a position is \$4,000 per month, then the department saves \$4,000 (plus some salary driven benefit costs) each month that the position is vacant. Every department is expected to have some salary savings as a result of normal turnover and delays in filling positions. The Governor's budget traditionally includes an assumption of salary savings for each department, and departmental appropriations are reduced accordingly. A typical level of savings is 5 percent. The budget estimates current-year salary savings of about 4.5 percent for each of the three veterans' homes.

Department Proposes to Exempt Classifications From Salary Savings. The department proposes to exempt certain positions from estimated salary savings. This proposal results in increased costs of \$1.7 million across the three veterans' homes. Specifically, the proposal exempts about 20 classifications involved in direct patient care, including (1) nursing positions that require 24 hours of coverage each day and (2) other positions that may or may not require 24-hour coverage, such as dentists, nurse instructors, occupational therapists, and radiologic technicians. According to the department, the rationale for the proposal is to ensure adequate 24-hour coverage, to accommodate absences due to vacation or illness, and to provide time off for staff members who are required to monitor patients outside of normal administrative business hours.

Exemption of Positions Not Justified. The department's proposal for wholesale exemption from salary savings for new and existing direct care positions is not adequately justified. Aside from providing general concerns about coverage, the request contains no analysis of specific positions that have experienced trouble with providing

care. Other state hospital facilities are budgeted with standard salary savings. For example, the Department of Mental Health-which also provides 24-hour direct patient care in its hospital facilities-budgets salary savings for its staff. Departments are generally expected to use management strategies to accommodate coverage issues, such as using overtime, adjusting schedules to accommodate after-hours workload, coordinating vacation schedules, and other similar approaches. In some instances, if a department is unable to meet staffing demands with these methods, it can request additional positions based on specific workload information.

Reject Proposal for Salary Savings Exemption. We recommend the Legislature reject the proposal for wholesale exemption of direct care staff from salary savings at the veterans' homes. If the department provides evidence of coverage problems for specific positions that cannot be resolved through a management approach, it could resubmit a more refined proposal.

Staff Comment: The request for exemption from statewide salary savings practice for 27.8 positions is an unrelated solution to the significant hiring and retention problem. The preliminary report of the Department of Personnel Administration's (DPA) "Total Compensation Survey" contains two major findings that merit mentioning here:

- *The State lags the private sector in all medical and related occupations. The greatest private sector lag is for occupational therapists, where the lag is 39 percent.*
- *In the auditor and registered nurse classifications, the State salaries lag behind other employers – public and private. For auditors, the lag is 7 – 8 percent; for RNs, it's 3 – 5 percent. (These lags do not reflect recent pay increases for RNs resulting from a federal court order.)*

The solution to these staffing challenges should come from a broader perspective that incorporates management solutions, better identification of overtime commitments, and specific classification compensation adjustments.

Staff notes that several of the positions requested this year include no salary savings. This was done to reflect the salary savings policy change underlying this proposal. Those adjustments are discussed in issues below.

Staff Recommendation: HOLD OPEN the BCP and request the department, LAO, and DOF identify an alternative methodology to address the hiring and retention challenges for nursing positions.

6. BCP: Yountville Veterans Home – Increased Food Budget

The Department of Veterans Affairs requests \$132,000 General Fund ongoing to augment the food budget at the Yountville Veterans Home. Allowances per day have remained unchanged at \$5.75/day per resident since 1999-00. The department proposes to increase the rate to \$6.72/day.

Staff Comment: The proposed 17 percent food budget augmentation at the Yountville Veterans Home is based on DGS Price Letter calculations. Price Letter figures for foodstuffs are based on a statewide rate, applied regardless of function or location of a facility. A more instructive comparison may be comparing a similar facility, such as the nearby Sonoma Developmental Center, which budgets \$8.00/day for their patients.

Staff Recommendation: HOLD OPEN the BCP and request the department explain how Price Letter adjustments are applicable Veterans Homes, as opposed to adjusting food allocations based on facilities with a similar function, such as the Sonoma Developmental Center.

7. BCP: Yountville Veterans Home: Open Renovated Annex I for Alzheimer's and Dementia Patients

The Department of Veterans Affairs requests \$3.8 million General Fund and 75.7 positions to open the newly rebuilt and renovated Annex 1 for Alzheimer's and Dementia patients. The Yountville Veterans Home plans to open this facility to serve 40 patients on July 1, 2006, and the remaining 35 patients on January 1, 2007. A corresponding augmentation of \$1.3 million (\$371,000 General Fund) and 33.5 positions will staff and backfill two nursing wards with other patients after the existing Alzheimer's and Dementia Unit is vacated.

Staff Comment: The request includes \$1000 per classification (for a total of \$32,000) to advertise in local newspapers and professional journals. These advertising allotments will target everything from nursing assistants to stock clerks to launderer assistants.

The state's normal position advertising process is through a centralized service operated by the State Personnel Board. A specific funding request for position advertising is not consistent with other departments and has no apparent precedent.

The DVA has included position advertising funding in several BCP requests. Efficiencies such as advertising several positions or several locations for the same position in the same publication, were not recognized in the proposals.

The department has explained that the proposed positions are difficult to fill, and extraordinary measures are needed. Nonetheless, without a clear justification that recognizes the varying costs per classification, by location, and other efficiencies, the department should redirect for this purpose.

Staff Recommendation: AMEND the proposal by reducing operating expense funding by \$32,000 to remove classification advertising funding.

VOTE:

8. BCP: Yountville Veterans Home: Re-open Skilled Nursing Wards 1A and 1B

The Department of Veterans Affairs requests 33.5 positions and \$1.262 million (\$371,000 General Fund) to re-open Wards 1A and 1B as a skilled nursing unit at the Yountville Veteran's Home in January 2007. The full year cost of this proposal is \$2.5 million. This reopening will allow the facility expand its available skilled nursing unit beds from 1160 to 1200. The existing skilled nursing unit operates at near capacity and has a waiting list of over 300 persons.

Staff Comment: The position request does not include a reduction for salary savings. Consistent with the discussion in issue #5, salary savings should be budgeted at five percent and any funding shortfalls addressed with a specific proposal. Furthermore,

since these positions will not be filled at the start of the budget year, recognition of a five percent salary savings is especially appropriate in the first year.

This request includes \$5000 for advertising expenditures. Consistent with issue #7, these costs are unsupportable as an augmentation. The department should consider redirections, for this purpose.

Staff Recommendation: AMEND the request by eliminating funding for advertising and adjusting the salary savings level to five percent.

VOTE:

9. BCP: Behavioral Wellness Programs at Veterans' Homes

The Department of Veterans Affairs requests \$1.0 million General Fund and 11 positions to establish a baseline for the Behavioral Wellness Program at the Yountville, Barstow, and Chula Vista Veterans Homes. These positions will focus on early detection of psychiatric disorders in younger residents, particularly post traumatic stress disorder. Healing strategies will include psychiatry, psychology, and substance abuse treatment.

Staff Comment: This request includes \$8000 for advertising expenditures. Consistent with issue #7, these costs are unsupportable as an augmentation. The department should consider redirections, for this purpose.

Staff Recommendation: REDUCE the BCP request by \$8000.

VOTE:

10. BCP: Barstow Veterans Home—Intermediate Care Facility to Full Capacity

The Department of Veterans Affairs requests to expand available beds from 40 to 60 at the intermediate care facility at the Barstow Veterans Home. The department will add 10.6 positions and augment by \$1.334 million (\$906,000 General Fund). The 20 beds were voluntarily shut down in 2003 after a series of incidents involving mistreatment of residents at the Barstow facility. The Department of Health services restored the Barstow Veterans Home authority to begin reopening a nursing facility in April 2005.

Staff Comment: The position request does not include a reduction for salary savings. Consistent with the discussion in issue #5, salary savings should be budgeted at five percent and any funding shortfalls addressed with a specific proposal. Furthermore, since these positions will not be filled at the start of the budget year, recognition of a five percent salary savings is especially appropriate in the first year.

A 2003-04 negative BCP, which recognized the closure of the specialized nursing facility at the Barstow Veterans Home, shows a minimal loss of non-consultant, non-equipment, operating expense (OE) related to the 174 positions lost. Specifically, only \$47,000 was reduced along with those positions. At an absolute minimum, each position reduction should have been accompanied by an OE reduction of \$3000 per position, or \$522,000.

The DVA has disclosed that since the closure of the Barstow skilled nursing facility in October 2003, the Home has redirected approximately \$311,000 in operating expense to

temporary help. On an annualized basis, the department has redirected approximately \$120,000/year from available OE to temp help.

Based on this information, the OE funding requested with the ten new positions, \$405,000, should be reduced by \$355,000 (\$522,000 - \$120,000 - \$47,000) to reflect available OE funds.

Staff Recommendation: REDUCE the request to reflect five percent salary savings and operating expense funding of \$50,000.

VOTE:

11. BCP: Veteran's Home Barstow – Staffing Adjustment for Certified Nursing Assistants.

The Department of Veterans Affairs requests 4.2 positions and \$233,000 General Fund to conform to federal staffing requirements for certified nursing assistants at the intermediate care facilities at the Barstow Veterans Home. Total required staffing is 16 positions.

Staff Comment: The DVA has acknowledged an error in budgeting facilities costs. The original BCP included \$10,000 for facilities costs that were subsequently determined to be unnecessary.

The position request does not include a reduction for salary savings. Consistent with the discussion in issue #5, salary savings should be budgeted at five percent and any funding shortfalls addressed with a specific proposal. Furthermore, since these positions will not be filled at the start of the budget year, recognition of a five percent salary savings is especially appropriate in the first year.

Staff Recommendation: REDUCE the operating expense budget by \$10,000 and adjust personal services funding to recognize five percent salary savings.

VOTE: